

DIRECT TESTIMONY AND EXHIBIT OF

ANTHONY SANDONATO

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2018-102-S

IN RE: APPLICATION OF KIAWAH RIVER UTILITY COMPANY FOR

APPROVAL OF SEWER RATES, TERMS, AND CONDITIONS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Anthony Sandonato. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff (“ORS”) in the Utility Rates and Services Division as a Senior Regulatory Analyst.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received my Bachelor of Science in Nuclear Engineering from North Carolina State University in 2011. Prior to my employment with ORS, I was employed as an analyst with a global professional, technology, and marketing service firm working with large investor-owned utilities on energy efficiency program design and implementation. I joined ORS in 2016.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA (“COMMISSION”)?

1 A. Yes. I have testified on numerous occasions before the Commission in matters
2 related to general rate cases, annual purchased gas adjustments, and annual fuel clause
3 proceedings.

4 **Q. WHAT IS THE MISSION OF THE OFFICE OF REGULATORY STAFF?**

5 A. ORS represents the public interest as defined by the South Carolina General
6 Assembly as follows:

7 [T]he concerns of the using and consuming public with respect to public
8 utility services, regardless of the class of customer, and preservation of
9 continued investment in and maintenance of utility facilities so as to provide
10 reliable and high-quality utility services.

11 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

12 A. The purpose of my testimony is to set forth ORS's findings relative to the review
13 of the application ("Application") submitted by Kiawah River Utility Company ("KRUC"
14 or "Company") for the establishment of service area and for establishment of sewer rates
15 and charges.

16 **Q. PLEASE EXPLAIN HOW YOU COMPILED INFORMATION FOR YOUR**
17 **TESTIMONY AND EXHIBIT.**

18 A. I used information provided by KRUC in its Application and additional information
19 provided by KRUC during the course of my review and the facility site inspection
20 conducted by ORS on September 12, 2019.

21 **Q. WHO IS KIAWAH RIVER INVESTMENT, LLC AND WHAT IS ITS**
22 **RELATIONSHIP TO KRUC?**

23 A. Kiawah River Investment, LLC ("KRI") is the developer of Kiawah River, a large
24 planned residential community with some mixed-use, on Johns Island in the

unincorporated portion of Charleston County. KRI is the sole owner of Kiawah River Utility Holdings, LLC (“KRUH”), which wholly owns KRUC.

Q. PLEASE PROVIDE AN OVERVIEW OF THE KIAWAH RIVER DEVELOPMENT.

A. The Kiawah River development is a proposed mixed-use community that would, once fully developed, include up to 1,285 homes, a combination of hotels, inns and/or villas totaling up to 450 guest rooms, and 80,000 square feet of retail and/or office use. The development area is approximately 2,000 acres with over 1,000 highland acres. Buildout of the development area began in 2019 and is expected to reach full buildout over the next twenty (20) years. Based on the Application and Initial Rate Study, the Company plans to complete the development in four (4) phases with Phase 1 complete in 2022, Phase 2 complete in 2026, Phase 3 complete in 2030, and Phase 4 (complete Build-Out) in 2034.

Q. PLEASE PROVIDE AN OVERVIEW OF THE PROPOSED LOCATION, SERVICE TYPE, AND CUSTOMER BASE TO BE SERVED BY KRUC.

A. KRUC owns a wastewater treatment facility and collection system which is designed to provide service for the Kiawah River development. The wastewater treatment facility is located north of the Kiawah River development at 2501 Mullet Hall Road, Johns Island, South Carolina. Based on the Company’s operating projections included in the Application, KRUC will be classified as a NARUC Class C wastewater utility upon the completion of Phase 1 as detailed in Exhibit 10 Schedule C of the Application. KRUC will serve the Kiawah River development exclusively and water will be provided to the Company’s customers by St. John’s Water Company, Inc.

Q. WHO ARE THE VENDORS KRUC WILL RELY UPON TO PROVIDE SERVICE TO ITS CUSTOMERS?

A. The Company entered into two (2) agreements to assist the Company in providing service to its customers. KRUC contracted with Guastella Associates, LLC to manage KRUC's record keeping, accounting, billing, customer service, financial and regulatory matters. In addition, KRUC contracted with M.J. Agin & Associates, LLC to perform maintenance, repairs and environmental compliance duties.

Q. DID ORS REVIEW THE AGREEMENTS THAT KRUC ENTERED INTO FOR MAINTENANCE AND MANAGEMENT OF THE SYSTEM?

A. Yes, ORS reviewed the contracts that the Company filed with the Commission in accordance with S.C. Code Ann. Reg. § 103-541. The contracts the Company executed address the Companies' responsibility to comply with Commission rules and regulation. The total cost impact to KRUC's future customers for the services provided in the maintenance and management agreements total \$21.94 per month per customer for maintenance and management services.

Q. PLEASE EXPLAIN ORS'S VIEW OF THE MEMORANDUM OF UNDERSTANDING BETWEEN KRUC, KRI AND KRUH.

A. The Company, its parent company, and KRI have entered into a Memorandum of Understanding ("MOU") to formalize the commitment of KRI and its parent company, KRUH, to fund all utility operating deficits until there is a sufficient level of operating revenues or KRUC can attract capital. The Company filed the amended MOU with the Commission in accordance with S.C. Code Ann. Reg. § 103-541.

Q. HAS KRUC INCLUDED IN ITS APPLICATION THE INFORMATION REQUIRED BY S.C. CODE ANN. REG. § 103-512.4.B?

A. Yes.

Q. DID THE COMPANY INCLUDE A PERFORMANCE BOND IN ITS APPLICATION?

A. Yes. The Company included a performance bond in its Application and submitted an updated performance bond in the amount of \$350,000 to the Commission on July 12, 2019. ORS reviewed the performance bond and surety agreement between KRUC and Travelers Casualty and Surety Company of America and finds the bond and surety meet the requirements of S.C. Code Ann. § 58-5-720 and S.C. Code Ann. Regs. §§ 103-512.3, 103-512.3.1 and 103-512.3.2.

Q. PLEASE EXPLAIN EXHIBIT AMS-1.

A. Exhibit AMS-1 is a summary of ORS's inspection of KRUC's wastewater system on September 12, 2019. At the time of the system inspection there were four (4) connections on the system with zero (0) customers.

KRUC is currently operating its wastewater treatment facility and collection system under a temporary South Carolina Department of Health and Environmental Control ("DHEC") permit, which expires on June 30, 2020. Once the daily flow reaches at least 4000 gallons per day, the Company will install the final membranes, obtain final approval to operate from DHEC, and commence the operation of the plant under National Pollutant Discharge Elimination System ("NPDES") Permit No. ND008897 that authorizes land application. The Company should be required to notify the Commission when it receives DHEC approval to operate under the NPDES Permit No. ND008897.

Q. PLEASE EXPLAIN THE PROPOSED RATE REQUESTED BY KRUC.

A. The Company requested an initial rate of \$85 per month per unit be established and approved by the Commission to be paid by customers in advance. The rate of \$85 per month was derived by the initial rate study completed by Guastella Associates, LLC (Exhibit 1 of the Application). Company witness Guastella states in his direct testimony that the goal of the initial study was to recommend rates and charges that would only generate the portion of the cost of providing wastewater collection, treatment, and disposal service necessarily attributable to the respective number of customers during the growth years, and thereby assure that they do not bear the costs related to the real estate project. ORS reviewed the Study and the pro-forma financial statements of the Company and submits that the calculations and assumptions appear to be reasonable and the resulting rate of \$85 per month per unit is reasonable.

Q. WILL THE COMPANY NEED TO INCREASE ITS PROPOSED MONTHLY FEE IN FUTURE YEARS?

A. Company witness Guastella states in his direct testimony that periodic rate increases will likely be necessary. Based on the initial rate study performed by Guastella Associates, LLC, the Company forecast that rates would need to be \$236.02 per month per unit to cover the full cost of service utilizing the assumptions in the study. To ensure transparency to potential customers, KRI should inform prospective homeowners of the potential rate for sewer service when marketing and/or selling the property.

Q. WHAT IS THE COMPANY'S RATE OF RETURN AT THE MONTHLY RATE OF \$85 AND THE COMPLETION OF PHASE 1?

1 **A.** Based on the projections included by the Company in its Application (Exhibit 10
2 Schedule C) and absent the subsidy from KRI and KRUH, the Company projects it may
3 earn a -9.64% Rate of Return. This equates to a -601.96% Operating Margin.

4 **Q. WILL YOU UPDATE YOUR DIRECT TESTIMONY BASED ON INFORMATION**
5 **THAT BECOMES AVAILABLE?**

6 **A.** Yes. ORS reserves the right to revise its recommendations via supplemental
7 testimony should new information become available or information not previously
8 provided by the Company.

9 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

10 **A.** Yes, it does.



ORS WASTEWATER SYSTEM INSPECTION REPORT

Inspection Overview

Date Inspected: September 12, 2019

Inspector Name: Anthony Sandonato, Chade Campbell

Docket Number: 2018-102-S

Utility Name: Kiawah River Utility Company

Utility Representative: Kevin O'Neil, Mike Agin, Lyndell Cummings, Mark Yodice

Number of Customers: 4 Homes have been constructed but 0 occupied

System Type (collection, force main, lagoon, etc): collection with membrane bioreactor treatment plant

Location of System: Charleston County

Location of Utility Office: 2501 Mullet Hall Road, Johns Island, SC 29455

Treatment Type: Temporary Lagoon Storage

Permit #: ND0088897

Last SC DHEC Compliance Rating: Operating under a Temporary Lagoon Storage

Frequency checked by WWTF Operator: Weekly with SCADA system in place

Drinking Water Provider: St. Johns Water Company

Inspection Results

	System Components Inspected	Compliance		Comments
		Yes	No	
1	Chlorinator			N/A
2	Other chemicals in use	X		
3	Aerators present	X		
4	Plant fenced and locked	X		
5	Warning Signs Visible	X		
6	Fence in good condition	X		
7	Dikes in good condition	X		
8	Odor non-existent or limited	X		
9	Grass mowed	X		
10	Duckweed/Algae acceptable	X		
11	Grease build-up acceptable	X		
12	Plant free of debris	X		
13	Effluent Color acceptable			N/A
14	Lift Stations present	X		1 inservice will have 16 at full build out
15	Failure Warning System adequate	X		
16	Electric Wiring adequate	X		
17	System free of leaks	X		
18	System free of overflows	X		
19	Access road adequate	X		
20	Ability for service area to expand	X		

Additional Comments: At full buildout the system will have up to 16 wastewater treatment pumps with 770,000 gallon lagoon with land application of tertiary treated wastewater.